

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of a Renewable Energy Purchase
Agreement with Velva Windfarm LLC

ISSUE DATE: July 19, 2006

DOCKET NO. E-002/M-04-864

ORDER FINDING VELVA WINDFARM
PROJECT REO ELIGIBLE AND
ALLOWING RECOVERY OF PPA COSTS
THROUGH FCA

PROCEDURAL HISTORY

On June 7, 2004, Northern States Power Company d/b/a Xcel Energy (Xcel) filed a petition for approval of a renewable energy purchase power agreement (PPA) between Xcel and Velva Windfarm LLC (Velva). According to the PPA, Velva will construct, own and operate eight 1.5 megawatt wind facilities, for a total of 12 megawatts. The PPA covers a 20 year term, and was operational in January 2006. The project is located in McHenry County, North Dakota.

Xcel further requested the Commission to allow it to recover the PPA's costs through the automatic rate adjustment authorized under Minn. Stat. § 216B.1645. Xcel stated that the generation purchased under the agreement would help meet its obligations under the Renewable Energy Objectives (REO) statute.¹

On October 8, 2004, the Department of Commerce (the Department) filed comments. The Department recommended modifying certain contract terms, recommended reporting requirements, opposed counting contract generation toward Xcel's REO obligation, opposed rate recovery of contract costs under Minn. Stat. § 216B.1645, and recommended revising an Xcel tariff provision that permits it to treat all wind generation costs as energy costs eligible for automatic recovery through the fuel clause adjustment (FCA).

¹ Minn. Stat. § 216B.1691.

On October 29, 2004, Xcel filed reply comments. Xcel accepted the contract modifications and reporting requirements recommended by the Department, dropped its claim to cost recovery under Minn. Stat. § 216B.1645, recommended deferring consideration of the contract's status under the REO statute to an REO proceeding, and opposed changing the fuel clause treatment of wind resources in this or other proceedings without broad notice to stakeholders.

The Commission issued its order on December 29, 2004.² The Commission authorized Xcel to use its FCA to recover the full costs of the Xcel/Velva PPA through June 30, 2006. The Commission also requested the Department to prepare a report regarding the appropriateness of continuing to allow recovery of 100 percent of the costs of purchasing wind-generated electricity through the FCA, and to submit it to the Commission before June 30, 2006.

On May 22, 2006, the Department submitted its report on the capacity characteristics of wind generation and associated rate recovery, as required by the Commission's December 29, 2004 Order.

On June 2, 2006, Xcel filed its response. Xcel sought either additional time to respond to the Department's recommendations, or that the Commission allow Velva payments to continue to be included in the FCA until such time as the Commission had "fully determined whether or not it is reasonable to separate single payments made to wind projects into both energy and capacity components."

On June 29, 2006, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Positions of the Parties

A. Xcel

Xcel requested approval to recover from Minnesota retail customers the Minnesota jurisdictional portion of the amounts incurred by Xcel during the full term (20 years) of the PPA. Xcel sought prior approval similar to the Commission's authority under Minn. Stat. § 216B.1645 to recover the energy costs under the agreement through the resource adjustment clause that is combined with the fuel clause.³

² *Order Approving Contract as Modified, Setting Reporting Requirements, and Requesting Report on Determining the Capacity of Wind Generation Facilities*, Docket No. E-002/M-04-864 (December 29, 2004).

³ Xcel's June 7, 2004 comments in this docket.

B. The Department

The Department initially opposed rate recovery of contract costs under Minn. Stat. § 216B.1645. In 2004, Minn. Stat. § 216B.1645 did not allow Xcel to recover automatically, through the FCA, the capacity costs associated with REO projects.

The statute was amended in 2005,⁴ to allow for full recovery of investments and expenditures by utilities to meet the REO, and to allow full recovery through an automatic adjustment to customer rates, once the REO investments and costs are approved by the Commission. The Department recommended that the Commission make the decision regarding REO eligibility either in Xcel's pending resource plan proceeding or in this matter.

In assessing Xcel's REO compliance in the resource plan, the Department treated the Velva project as a "planned eligible addition," and included the generation from this project, beginning in 2007, in an assessment of REO compliance. The Department qualified its treatment of the Velva energy as a "planned eligible addition" by indicating that at that time (August 2005) the generation from the Velva facility was not deliverable to Minnesota.

However, the Department assumed Xcel would get MISO⁵ approval for transmission deliverability to Minnesota by 2007 and did include the eligible renewable energy beginning in that year. The Department noted that it would reexamine, in Xcel's next resource plan, Velva's eligibility on completion of the MISO approval process for the deliverability of Velva generation to Minnesota.

⁴ As amended, Minn. Stat. § 216B.1645 provides:

Minn. Stat. § 216B.1645. Power purchase contract investment.

Subdivision 1. Commission authority. Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy . . . the renewable energy objectives set forth in section 216B.1691

Subd. 2. Cost recovery. The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C. 779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission,

⁵ Midwest Independent System Operator. MISO is a regional transmission organization, which serves as neutral third party administrator of utilities' transmission facilities to make such facilities available on non-discriminatory basis.

Based on the record available, the Department recommended that the Commission make a determination of REO eligibility for the wind energy generated by the Velva project. The Department requested, however, that REO eligibility should be contingent on the successful completion of the MISO approval process for delivery of the generation to Minnesota.

II. Commission Action

In its December 29, 2004 Order approving the Velva Windfarm PPA, the Commission allowed full recovery of the cost of the generation from the project through the FCA until June 30, 2006. Since the December 29, 2004 Order, however, Minn. Stat. § 216B.1645 has been amended to offer the potential for full recovery of costs incurred under an approved PPA entered into to meet the REO.

When the Velva PPA came before the Commission for approval in December 2004, the Commission deferred a decision on REO eligibility to an REO-specific docket. The issue of REO eligibility has now been developed in Xcel's resource plan, and in this docket. The facility meets the definition of "eligible energy technology" under Minn. Stat. § 216B.1691, and the Commission's June 1, 2004 Order in Docket No. E-000/CI-03-869.⁶ The energy from the facility will be used to serve the Xcel system.

The Commission understands that Xcel has now received MISO approval for transmission deliverability to Minnesota for the Velva project. In an effort to confirm this and to characterize more clearly the MISO approval, the Commission will ask that Xcel verify this in a written statement.

After review of the record in this proceeding, and listening to the arguments of the parties, the Commission concludes, contingent upon a demonstration by Xcel of the successful completion of the MISO approval process for delivery of the generation to the Xcel energy system, that the Velva Windfarm project is REO eligible. Further, the Commission will allow Xcel to continue recovery for the Velva Windfarm project of both energy and capacity costs through the FCA over the life of the contract.

The parties agree that the Commission's decision regarding new language for the Company's FCA should be deferred to Xcel's rate case,⁷ where the record on this issue has been more fully developed and the issues in disagreement narrowed.

⁶ *Initial Order Detailing Criteria and Standards for Determining Compliance with Minn. Stat. § 216B.1691 and Requiring Customer Notification by Certain Cooperative, Municipal, and Investor-Owned Distribution Utilities*, Docket No. 999/CI-03-869 (June 1, 2004).

⁷ Docket No. E-002/GR-05-1428.

ORDER

1. The Commission finds, contingent upon a demonstration by Xcel of the successful completion of the MISO approval process for delivery of the generation to the Xcel energy system, that the wind energy generated by the Velva Windfarm project is REO eligible.
2. Xcel is allowed to use its FCA to recover the full costs of the PPA after July 1, 2006, and over the life of the contract.
3. A decision on new language for the Company's FCR will be deferred to Xcel's general rate case.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 201-2202 (voice) or 1-800-627-3529 (MN relay service).